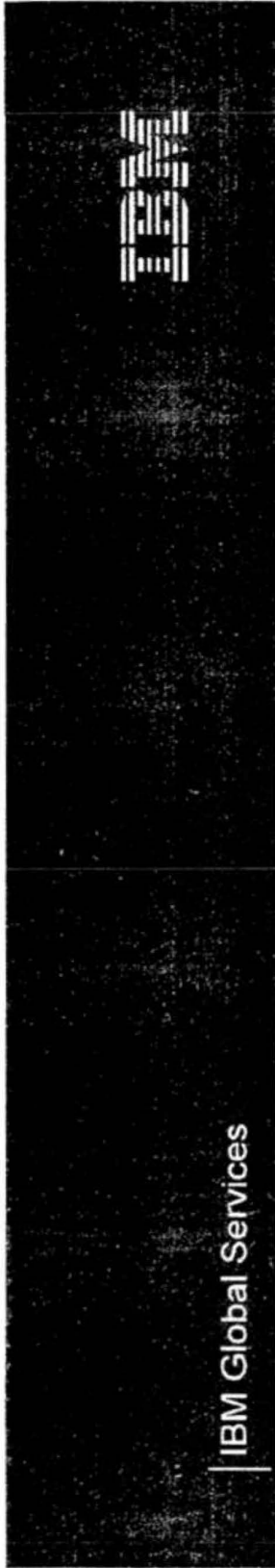
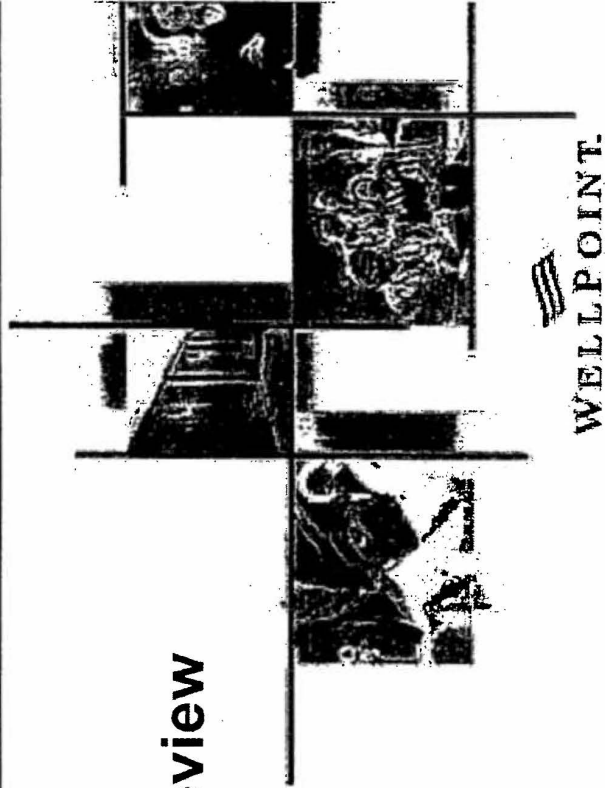


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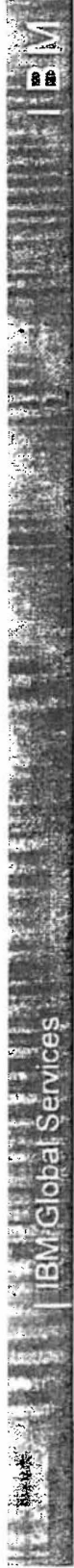
# WellPoint – Red Team Review ASD Executive Review

Robert Gonzales  
Lynn Small



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- 
- Agenda
  - WellPoint Account Overview
  - Red Team Findings/Observations
  - Top Issues Driving Cost



## Client Background: WellPoint Health Networks

- **WellPoint is the nation's leading health benefits company serving the needs of approximately 34 million medical members, nationwide.**
  - WellPoint is a Blue Cross or Blue Shield licensee in 14 states: California, Colorado, Connecticut, Georgia, Indiana, Kentucky, Maine, Missouri, Nevada, New Hampshire, New York, Ohio, Virginia, excluding the immediate suburbs of Washington, D.C., and Wisconsin.
  - Offers a broad range of medical and specialty products.
  - 42,000 employees and \$51.4B in assets.
- **WellPoint Health Networks, Inc. became a part of Anthem, Inc. on November 30, 2004. Anthem, Inc. changed its name to WellPoint, Inc. with Headquarters in Indianapolis, IN**



## WellPoint Contract Scope

<b>Term:</b>	7 years, 3 one year options
<b>Effective Date:</b>	July 1, 2005 to June 30, 2012
<b>Original Contract Value:</b>	\$720 million
<b>Employees to IBM:</b>	~380
<b>Planned Primary Consolidated Location:</b>	Richmond, VA (Customer facility – Original plan was for Southbury and Lexington)
<b>Scale:</b>	8,600 MIPS, 3 MF Data Centers (CA, MO, GA) 3,000 MR server nodes, 80+ locations 900 TBs (DASD)
<b>Service Towers:</b>	Mainframe and Midrange

## Principles of the Original Agreement

### ▪ **Key selling Points**

- Infrastructure stability and process management
- Material cost savings in immediate years and in the out years
- Immediate move out of the California (CA) data center
- Immediate access to IBM people, processes and expertise
- Software and platform standardization
- Capability to expand to accommodate future organic or acquisition growth

## State of WellPoint IT at Signing

### Customer Environment

- WellPoint had been created by numerous mergers and acquisitions over decades.
  - The RFP was released in the middle of the acquisition of WellPoint by Anthem
- WellPoint had over 80 locations with major centers in CA, MO, GA, CT, VA, WI.
- The IT systems were old, little investment had been made in hardware, tools, people, or process.
- The multiple mergers caused a tremendous level of infighting and distrust with few attempts to really bring the IT organization together.

### Key Value proposition/customer priorities in the original deal

- Extreme concern about their California Datacenter (Location, space, security, reliability etc. Needed to move out immediately – **Original driver for SO bidding process in the first place**)
- Extreme problems with availability and reliability of infrastructure overall
- Focused very heavily on short term cost take out to meet merger synergies promised to Wall street as a result of the merger
- Very confidential bidding process with no access to people or data throughout the engagement
  - Virtually all staff was off limits during the solutioning process
- Re-badged all 390 in scope people
  - Paid to sever 200 over the first 18 months
- Created a very aggressive transition plan to move out of California first (Not our original recommendation)



## WellPoint IT Leadership Changes and Critical Events

### ▪ 3Q2005 - Deb Freedman (Infrastructure VP) and Ron Ponder (CIO):

- Original WLP leadership team provided little communications (before or after signing) about the outsourcing to the rest of the IT division or the business
- 7/2005: WellPoint requests IBM to analyze the potential to use the WellPoint Richmond datacenter as the prime site, with the IBM Lexington site as backup.
- 8/2005: WellPoint determines that they would like the Richmond datacenter as the primary location with the IBM price change of \$9.3M over the life of the contract.
- 9/2005: Richmond contract amendment draft complete by IBM with changes to schedules and milestones. Infrastructure VP leaves WLP

### ▪ 4Q2005 – Terry Burnett (Infrastructure VP) and Ron Ponder (CIO):

- With new organization, very little is being approved and WLP IT is chaotic
- 11/2005: Terry's holds meeting in Indianapolis with IBM to discuss/understand IBM contract and solution
- 12/2005: WLP holds meeting in NYC with IBM to discuss 2006 costs that will hit WLP budget prior to budget closure for 2006
- 12/2005: It is announced the CIO is leaving WellPoint in December.
- 12/2005: WLP requested detail discussion on the Richmond decision as well as the Richmond LAN and Power issues.
  - It turns into a \$5M+ problem that WLP wants IBM to pay to incremental difference.

## WellPoint IT Leadership Changes and Critical Events


- **1Q2006 - Terry Burnett (Infrastructure VP) and Mark Boxer (CIO):**
  - New CIO publicly communicates his intent to "fix" the IBM relationship
  - 1/2006: WLP reaffirmed via email on 1/27/06 that they would use the Richmond data center as the primary facility for the IBM SO scope of service, and that the new CA move date was 6/15/06
  - 2/2006: IBM provided a Re-Solution proposal to WLP (2/2/06). Re-Solution included Richmond datacenter pricing, an incremental \$4.683M of OTC for reconfiguring mainframes to receive GA and MO first, **but not include the Cost of Transition Delay**
  - 2/2006: It is announced the New Infrastructure VP leaving WellPoint immediately
  - 3/2006: WLP officially accepted the Re-Solution proposal. (3/21/06).
- **2Q2006 - Dave McDonald (Infrastructure VP) and Mark Boxer (CIO):**
  - Replacement of the majority WLP IT leadership
  - 4/2006: The transition plan was recast to represent a 4/1/06 start date. The new transition plan was reviewed with Darren Smith and Jim Forrest and approved on 4/24/06
  - 4/2006: Contract Amendment is drafted - IBM brings in new leadership
  - 4/2006: WLP send IBM a letter requesting the WellChoice (Empire BCBS) contract be incorporated into the WLP agreement
  - 5/2006: LOA presented to Dave McDonald on May 8<sup>th</sup> to cover 2Q06 Re-solution costs. LOA was rejected and WellPoint requested a more formal contract change
  - 5/2006: Renegotiation kick-off in Indy where WLP requests a two week turn around on a new contract with full pricing
  - 6/2006: A contract change is being developed with updated pricing and new pricing exhibits for presentation to WLP.



## Accomplishments

- IBM has affected numerous operational enhancements since the inception of the agreement however client expectations continue to exceed delivery capability and contract SLA's.
  - 115 Monthly SLAs : 4/06 – 94 met/21 missed of which 10 by <1%, 6 achieved >99% but missed
- ITIL Maturity Assessment completed in January 2006 revealed high level of "immaturity" across 20 I/T services areas and processes which resulted in the development of a "90 Day Stability Plan" to address most critical deficiencies. The plan is 90% complete.
- Best Practice Assessments of WP email infrastructure resulting in architectural recommendations and tactical enhancements. Marked improvement in overall availability and throughput.
- Audit and Compliance Assessments and Support
- California data center assessments & health checks (SME from IBM consulting)
  - Health Check of IMSP and DENP (IMS and CICS region used by CCB and 4SB application areas).
  - Performed facility assessment (CA) May
  - Mainframe, BMC Control-M, EMC DASD Healthcheck (in progress)
- Capacity Upgrades
  - Added CPU capacity to CA (January, March 06)
  - Added DASD capacity (CA and MO) February 06
  - Added DASD Cache (MO) March 06
  - Adding IBM VSM (Tape Silo, California) June 10
  - Adding DASD capacity (CA) June 10

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# Financial Challenge

Scope and volume gaps

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## Finances

- Acct Team Current and Projected Situation Assessment
  - Presented to Bob Zapfel by Acct Team June 6, 2006
- 2006 GP outlook is (\$42M)
- Agreed upon actions
  - Cost Cut without impacting SLA performance and customer satisfaction,
  - Transformation of the IT Infrastructure with a combination of investment and cooperative standardization across all WellPoint environments
  - Get paid for transition delay & re-sequencing,
  - Renegotiate
- Minimum to required to sustain the contract
  - Get paid for transition delays and resequencing - \$15M
  - Get paid for additional volumes not in scope
  - Align today's known volumes with accurate pricing or give work back to customer



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## WellPoint Financial Strategy Adjustments and Actions

Steady State	Projected Annual Costs	Delta to Cost Case	Transition			Cost Case Misses	Solution to Minimize	Targeted Savings
			Scope	Volumes	Delay	Re-sequence		
Labor	\$58.5	\$20.0	\$3.9	\$12.1	\$1.0	\$0.0	\$3.0	\$1.0 \$2.3 \$0.4 \$0.2 \$1.0 \$8.6 \$1.2 \$0.6 \$0.5
Hardware	\$26.7	\$8.0	\$0.0	\$0.0	\$1.8	\$0.0	\$6.2	\$1.8
Maintenance	\$7.5	\$2.5	\$0.0	\$0.0	\$0.3	\$0.0	\$2.2	\$0.3 \$0.1 \$0.1
Software	\$30.2	\$7.2	\$0.0	\$1.1	\$0.0	\$0.0	\$6.1	\$0.2 \$0.3 \$0.5
Services/Other	\$8.6	\$0.8	\$0.0	\$0.0	\$0.1	\$0.0	\$0.7	\$0.1
S/T	\$131.4	\$38.5	\$3.9	\$13.2	\$3.2	\$0.0	\$18.2	\$18.1
Transition								
Annual Charge	\$5.4	\$2.6	\$0.0	\$0.0	\$0.0	\$0.7	\$1.9	\$0.7
Contingency		(\$3.4)					(\$3.4)	
Accounting Adj.-Prepays	(\$2.3)	(\$2.3)						
Renegotiation								
Total Annual	\$134.5	\$35.4	\$3.9	\$13.2	\$3.2	\$0.7	\$16.7	\$16.6 \$35.4
Sunk Costs	\$2.7	\$2.7	\$0.0	\$0.0	\$2.7	\$0.0	\$0.0	\$2.7
HW, SW Elims	(\$15.9)							

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## WellPoint I&amp;E Scenarios

	1Q06 Actuals	2Q06 Most Likely	FY06 Scenario A	FY06 Scenario B	FY06 Scenario C	FY 07 Scenario A	FY 07 Scenario B	FY 07 Scenario C
Revenue - current	\$23.4	\$26.1	\$101.5	\$101.5	\$101.5	\$105.9	\$105.9	\$105.9
Scope			\$0.0	\$2.9	\$2.9	\$0.0	\$5.3	\$5.3
Delay				\$8.3	\$8.3		\$2.7	\$2.7
Renegotiation	\$0.0	\$0.0	\$0.8	\$0.8	\$4.8	\$0.8	\$0.8	\$9.6
Revenue - revised	\$23.4	\$26.1	\$102.3	\$113.5	\$117.5	\$106.7	\$114.7	\$123.5
Cost - current	\$34.9	\$41.5	\$134.5	\$134.5	\$134.5	\$133.5	\$133.5	\$133.5
Sunk Costs			\$2.7	\$2.7	\$2.7			
2005 Carryover			\$6.9	\$6.9	\$6.9			
GR Savings								
Cost Case CTO								
Other CTO	\$0.0	\$0.0		(\$1.2)	(\$1.2)			
Cost - revised	\$34.9	\$41.5	\$144.1	\$142.9	\$142.9	\$133.5	\$110.2	\$110.2
GP	(\$11.5)	(\$15.4)	(\$41.8)	(\$29.4)	(\$25.4)	(\$26.8)	\$4.5	\$13.3
Eliminations	(\$4.0)	(\$4.0)	(\$15.9)	(\$15.9)	(\$15.9)	(\$15.9)	(\$15.9)	(\$15.9)
Consolidated GP	(\$7.5)	(\$11.4)	(\$25.9)	(\$13.5)	(\$9.5)	(\$10.9)	\$20.4	\$29.2

Scenario A Current course and speed

Scenario B Bill customer for delays, scope gaps, execute Global Resourcing strategy

Scenario C Bill customer for delays, scope gaps, execute Global Resourcing strategy, renegotiate additional price for 50% of remaining gap

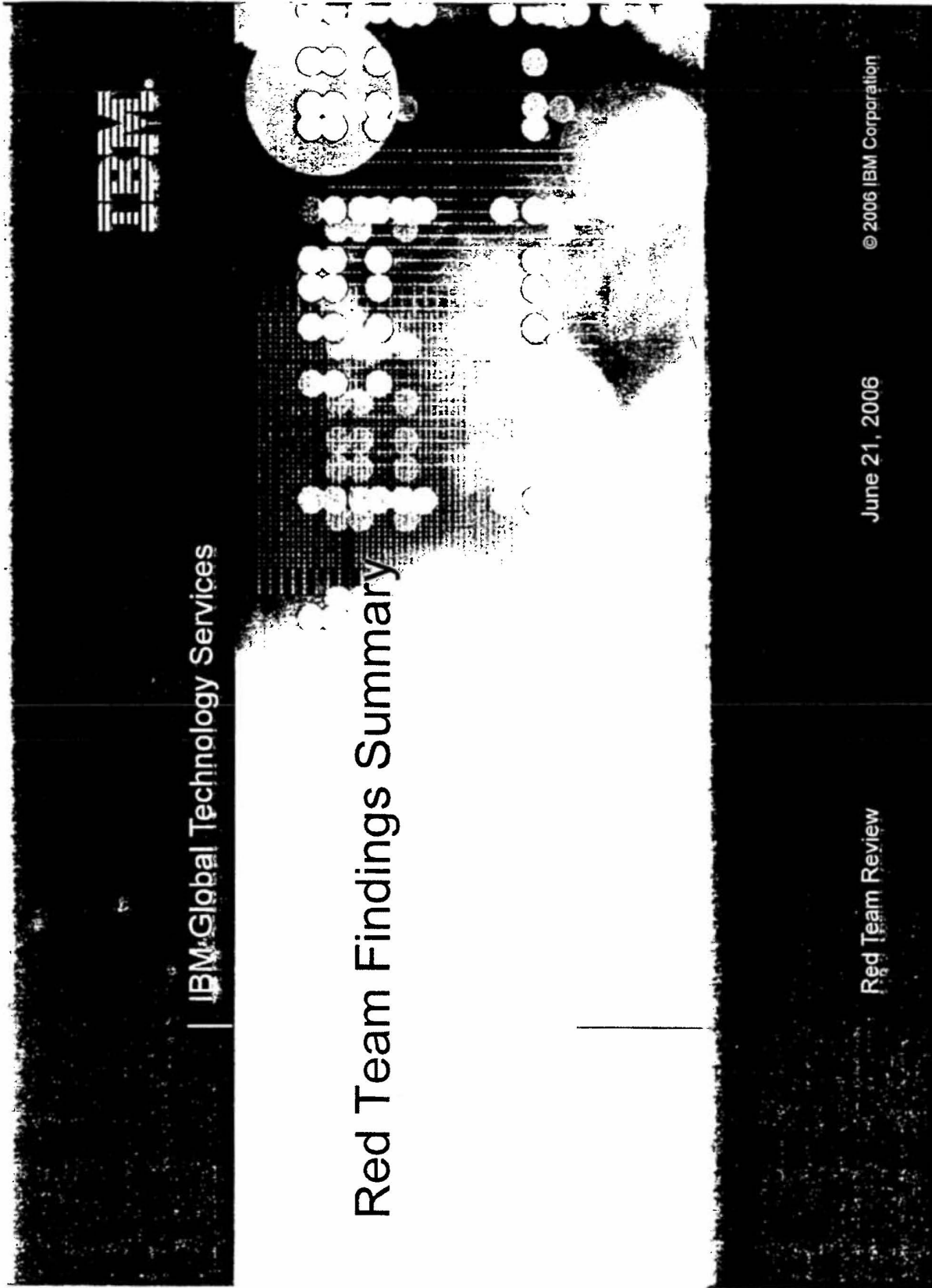
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## Red Team Findings/Observations

Acct Phase	Root Cause	Cost Impact(M) <sup>1</sup>
Engagement	<ul style="list-style-type: none"> <li>▪ <b>Due Diligence Not Performed</b> <ul style="list-style-type: none"> <li>– Inaccurate baselines due to faulty understanding of customer base environment</li> <li>– Missed scope in solution due to lack of understanding of customer's operations</li> <li>– Invalid solution assumptions due to lack of validation/verification</li> </ul> </li> <li>▪ <b>Lack of Contract Provisions to Protect Against Increased Scope</b> <ul style="list-style-type: none"> <li>– Increased costs due to scope creep</li> <li>– Increased volumes without true-up</li> </ul> </li> <li>▪ <b>Sweep Clause</b></li> <li>▪ <b>Inconsistencies Between Cost Case and Contract Terms</b> <ul style="list-style-type: none"> <li>– Increased hardware lease costs</li> </ul> </li> <li>▪ <b>Storage Solution Errors</b> <ul style="list-style-type: none"> <li>– Issue with bidding Blended vs Tiered Storage rates and wrong volumes</li> </ul> </li> </ul>	<div style="text-align: right;">\$22.5</div> <div style="text-align: right;">\$9.0</div>
	<ul style="list-style-type: none"> <li>▪ <b>Customer Prevented IBM Solution Implementation</b> <ul style="list-style-type: none"> <li>– Delays in Transition start-up</li> <li>– Re-sequencing of data center solution</li> </ul> </li> </ul>	<div style="text-align: right;">\$8.3</div> <div style="text-align: right;">\$4.7</div>
Execution		

Note 1 – 2006 Impacts

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## Major volume related Issues due to no due Diligence

- Middleware Support
  - DBA Support
  - User ID Administration
  - Change Management
  - Lotus Notes and Exchange
- **Summary --- Additional 127 FTPs**
    - **\$20.7 million annually\***
    - > **\*Estimated, using average rate card from original contract**

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## Summary of the major financial impacts to the WellPoint Contract (In \$millions)

Issue	2006 Impact (\$millions)	Total for contract life
Middleware Support	4.9	27.7
DBA Support	3.9	22.1
User ID Admin	6.7	46.9
Change Management	4.2	23.9
Lotus Notes and Exchange	1.0	5.6
Level 1 UID	.2	.8
FileNet	1.6	9.0
Transition Delay	8.3	11.0
Re-Solution	4.7	4.7
Blended vs. Tiers Storage	9.0	58.5
Totals*	44.5	210.2

\*Year by year totals and detail of each issue is provided in back up materials

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## Summary of the major financial impacts to the WellPoint Contract (In \$millions) Cont'd

### Financials

2006 Impact	2007 Impact	2008 Impact	2009 Impact	2010 Impact	2011 Impact	2012 Impact	Total Impact
\$6.7M	\$6.7M	\$6.7M	\$6.7M	\$6.7M	\$6.7M	\$6.7M	\$46.9M

User ID  
Admin (41  
FTE)

### Financials

2006 Impact	2007 Impact	2008 Impact	2009 Impact	2010 Impact	2011 Impact	2012 Impact	Total Impact
\$4.2M	\$4.0M	\$3.8M	\$3.6M	\$3.4M	\$3.3M	\$1.6M	\$23.9M

Change  
Management  
(26 FTE)

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## Summary of the major financial impacts to the WellPoint Contract (In \$millions) Cont'd

Lotus Notes  
and  
Exchange (6  
FTE)

### Financials

2006 Impact	2007 Impact	2008 Impact	2009 Impact	2010 Impact	2011 Impact	2012 Impact	Total Impact
\$1.0M	\$ .9M	\$ .9M	\$ .8M	\$ .8M	\$ .8M	\$ .4M	\$5.6M

Level 1 UID

### Financials

2006 Impact	2007 Impact	2008 Impact	2009 Impact	2010 Impact	2011 Impact	2012 Impact	Total Impact
\$0.2M	\$0.1M	\$0.1M	\$0.1M	\$0.1M	\$0.1M	\$0.1M	\$ .8M

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## Summary of the major financial impacts to the WellPoint Contract (In \$millions) Cont'd

### Financials

2006 Impact	2007 Impact	2008 Impact	2009 Impact	2010 Impact	2011 Impact	2012 Impact	Total Impact
\$1.6M	\$1.5M	\$1.4M	\$1.4M	\$1.3M	\$1.2M	\$ .6M	\$ 9.0M

FileNet

### Financials

2006 Impact	2007 Impact	2008 Impact	2009 Impact	2010 Impact	2011 Impact	2012 Impact	Total Impact
\$8.3M	\$2.7M	\$0.0M	\$0.0M	\$0.0M	\$0.0M	\$0.0M	\$11.0M

Transition  
Delay